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TAGS: ECON ENRG EINV SF
SUBJECT: NEW INVESTMENT PLANS ROBUST IN SPITE OF SLOWING ECONOMY IN SOUTH AFRICA

PRETORIA 00002016 001.2 OF 002

¶1. (SBU) Summary: Record levels of new investment spending plans were announced in South Africa in the first six months of 2008. New planned spending by Eskom led the way, but private sector spending plans were also robust. Investment spending will compensate for falling consumer spending and underpin continued economic growth. However, it is unclear whether investment will reach 25 percent of GDP (the government's target) in the foreseeable future. End Summary.

Investment Plans Aplenty

¶2. (SBU) Record levels of new investment spending plans were announced in the first half of 2008 in South Africa, according to Nicky Weimar, an economist at Nedbank and the coordinator of Nedbank's semi-annual survey of capital expenditures. Weimar met recently with Deputy Economic Counselor and Economist Specialist to discuss the survey.

¶3. (U) Released on August 25, the Nedbank Capital Expenditure Project Listing showed that plans for new investment spending remained robust in the first half of 2008, with 80 new projects being announced worth R336 billion ($42 billion). In contrast, only 128 projects worth R224 billion ($28 billion) were announced in all of 2007. (Note: The Nedbank survey records announcements of new investment plans; it does not track actual expenditures, which could be spread out over years. The survey only captures projects worth R20 million (about $2.5 million) or more. It excludes investments to replace worn-out or outdated capital goods. End Note.)

¶4. (U) The rise in the value of new projects was mainly attributable to power utility Eskom, which announced during the first half of the year that its already-large, multi-year capital expansion program would grow in size by another R243 billion ($30 billion). Planned private sector investment spending also remained strong, with 64 new projects worth R72 billion ($9 billion) being announced in the first six months of 2008. Of this amount, the finance and real estate sector accounted for R38 billion ($4.5 billion), with manufacturing following at R25 billion ($3 billion). However, the mining sector announced new projects worth only R6.5 billion (less than $1 billion), compared with R27 billion ($3 billion) in the same period in 2007.

Chugging Along

¶5. (SBU) Weimar said that investment spending is poised to keep the South African economy "chugging along" even as

consumer spending wilts under the impact of high interest rates. "The new projects will keep demand high for steel, cement, and construction services," she said, noting that Nedbank is projecting GDP growth of 3.5 percent in 2008. She also said that the import-intensity of most infrastructure projects will keep the current account under heavy pressure.

¶6. (SBU) Weimar saw little risk of a major let up in investment spending in the near-to-medium term. She cited several reasons for optimism: parastatals Eskom and Transnet are committed to expansion; manufacturing companies are operating at almost full capacity; mining companies anticipate years of high commodity prices; and China and India continue to grow. "Everyone is thinking long-term," she said, noting, "Everyone is looking past the current slowdown." She acknowledged that electricity shortages might threaten some of the new projects, but she was struck by how muted the impact of power constraints has been so far.
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¶7. (SBU) That said, Weimar was skeptical that investment spending would climb to 25 percent of GDP (the government's target) anytime in the foreseeable future. (Investment is currently 21.5 percent of GDP.) She explained that some infrastructure projects were already hitting bottlenecks because of skills shortages and insufficient project capacity. She also claimed that some firms are taking a "wait and see" posture on investment until the political environment is sorted out and a new ANC cabinet is in office. Weimar took comfort, however, from the fact that the government is in such strong fiscal shape. "The government has money set aside for infrastructure," she said, citing as an example its ability to provide guarantees to help Eskom raise capital.

Comment

¶8. (SBU) Investment as a share of South Africa's GDP did not exceed 18 percent in any year between 1991 and 2005, and dipped to a dismal 14 percent in 1993. The culprits behind this weak performance included heavy public debt, political uncertainty, high interest rates, and slow growth. These years of underinvestment have left the country with stressed and dilapidated infrastructure, as was demonstrated by the loadshedding of early 2008. The government's massive plans to upgrade power, ports, airports and other infrastructure, though overdue, promise to lift the economy to a higher growth trajectory. However, it is unclear whether the government's investment target of 25 percent of GDP can be attained.
BOST